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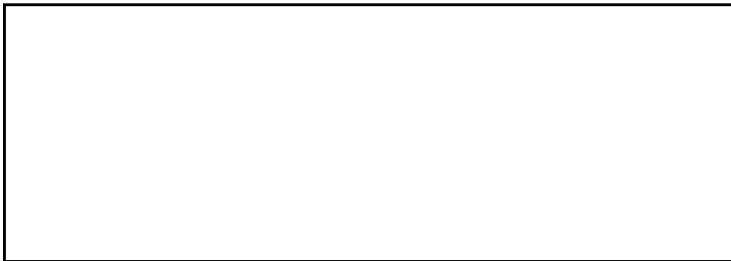
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8 March 1974

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MEMORANDUM FOR: [Redacted] NIO
USSR and Eastern Europe
THROUGH : Director of Economic Research
SUBJECT : Support for Dr. Kissinger's Trip to
Moscow

Attached are an original and two copies of U/TO's
contribution in support of Secretary Kissinger's trip to
Moscow entitled, "Soviet Search for US technology." If
you have any questions concerning the contribution, please
call

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Attachment:
As stated

Distribution: (S-6000)

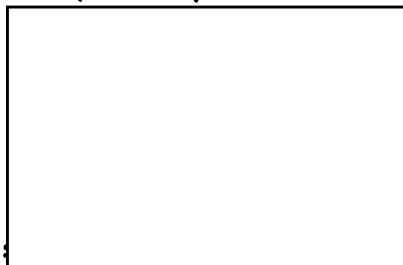
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OER/D/U/TO:



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Soviet Search for US Technology

1. The technological lag in the Soviet economy, coupled with a drying up of internal sources of economic growth, has sparked a Soviet campaign to acquire Western technology more systematically and extensively. The USSR traditionally has acquired Western technology mainly by purchasing machinery and equipment. Such purchases have increased markedly in recent years. Soviet contracts to buy Western machinery and equipment grew from \$840 million in 1971 to \$2.5 billion in 1973.

2. The campaign continues unabated. The USSR is trying to obtain advanced equipment, technology, and know-how on credit from Western firms for large development projects in petroleum, copper, coal, timber, and other sectors. The Soviets also have been seeking Western assistance in such fields as computers, chemicals, aircraft production, air traffic control systems, and motor vehicle production.

3. In the past two years the US has become the major target of Soviet efforts to obtain Western equipment and technology. Soviet contracts for US machinery and equipment, which averaged about \$30 million during 1966-70, rose to \$345 million in 1972 and \$435 million in 1973. Concomitantly, the US share of Soviet orders from the West increased from about 5% to almost 20% in 1972-73.

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Table 1

USSR: Machinery and Equipment Orders

From	Million US \$			
	Average 1966-70	1971	1972	1973 1/
Total	620	840	1,580	2,530
United States	30	240	345	435
Italy	160	65	170	625
West Germany	35	145	370	425
France	125	75	340	395
Japan	100	140	135	155
Sweden	30	10	15	145
United Kingdom	90	120	75	135
Other	50	45	130	215

1. Preliminary

Soviet acquisitions from the United States include motor vehicle manufacturing equipment -- particularly for the Kama plant -- oil field equipment, pipe-laying tractors, chemical equipment, and other items. In addition, the USSR would like to have US technology covering the whole spectrum of computer hardware and software, semiconductor technology, the technology and equipment for a nationwide air-traffic control system, and technology to produce aircraft and avionics.

Table 2

USSR: Machinery and Equipment Orders
from the United States

Category	Million US \$	
	1972	1973
Total	345	435
Chemicals	10	45
Refining and pipelaying	17	68
Mining and metallurgy	5	56
Machinery and equipment manufacturing	136	182
Mineral construction	121	4
Electronics	15	22
Other	41	58

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4. The USSR regards the United States both as a unique source of some of the technology and equipment it desires and as a major source of funds to help finance Soviet imports. Soviet leaders especially want to tap US capital markets for money to finance large cooperative ventures such as the North Star and Yakutsk LNG projects.

5. In spite of the large US surplus in trade with the USSR, the Soviets appear to be generally satisfied with the growth of their trade with the US thus far. Soviet purchases from the US for the Kama truck plant have provided the most advanced automated foundry complex in the world. Oil field equipment and technology bought in the US is also superior to that obtainable elsewhere. Moreover, while much of the machinery and equipment purchased in the US does not embody technology superior to that of many other Western countries, it is significantly better than that available domestically.

6. Future development in US-Soviet economic relations will depend heavily on the outcome of proposed large-scale cooperative ventures. All of these cooperative proposals are at a virtual standstill. Initial enthusiasm on the part of US firms for most of these deals has diminished during protracted negotiations with Soviet officials.

7. To some extent, the energy crisis and inflation have delayed contract agreements. The LNG proposals have changed drastically →

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since the initial proposals for US investment of about \$1 billion for drilling and pipeline equipment, liquefaction plants, and LNG tankers in return for 30 to 50 billion cu. ft. of gas per year for 20 to 25 years. The Soviets are now demanding 1980 prices for the gas (50% to 200% higher), linkage of LNG prices to world crude oil prices, and equipment and technology for plants in the USSR to produce large diameter pipe, valves and fittings, and tractors for pipeline construction. Soviet negotiators also want an additional credit of \$150 million for equipment to carry out further exploratory and test work at Yakutsk because the gas reserves there are insufficient to support the deliveries now anticipated. American consortiums for these projects so far have been unwilling to accept these terms.

8. US participation with Japan in Sakhalin offshore oil gas development and in an oil pipeline from Tyumen to the Soviet Pacific port of Nakhodka are other energy deals involving US investment of more than \$1 billion. As with the LNG projects problems have arisen over the terms of production sharing or preferential pricing, interest rates, and financing. Similarly, the prospects for the \$400 million Occidental chemicals deal are still uncertain because of increased prices and problems in financing.

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9. A number of US firms are interested in large cooperative deals in industries other than petroleum and chemicals. Kaiser industries has opened discussions on a huge aluminum complex in Siberia that could lead to Soviet purchases from the West of as much as \$3 billion. Several other firms are now looking seriously at Siberian coal development. Three US aircraft companies have been discussing the possibility of building a wide-body aircraft plant in the USSR; a US company is interested in bidding on the proposed steel plant at Kursk in competition with the West Germans; and several US firms are interested in installing an air traffic control system for the entire USSR. Most of these proposed deals require massive US credits which would require Eximbank participation. In addition, export controls would present obstacles for some of the projects.

10. The USSR has been unhappy with the slow progress on the large, long-term cooperative deals and large industrial proposals like the air traffic control system. Brezhnev's recent statement on US-Soviet trade made a direct connection between large-scale, long-term economic relations and overall US-Soviet relations. He also clearly implied that continued large Soviet purchases from the US depend on US participation in Siberian development and other major undertakings. Soviet Foreign Trade Minister Patolichev said that limits on US credits would force the USSR "to reorient its trade to Western Europe."

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11. The stiffer Soviet attitude in part reflects an upturn in the USSR's internal economic outlook. The Soviet hard currency position has also improved as a result of higher prices for oil, gold, and other raw materials which the USSR exports. In 1974 the USSR probably will have a hard currency payments surplus -- its first in seven years. At the same time, Soviet leaders expect that the energy crisis will make the US and other Western countries more amenable to participation in many of the development projects that have been proposed.

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